

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Commonwealth Edison Company)	
)	
Petition for Approval of Delivery)	Docket 01-0423
Tariffs and Tariff Revisions and)	
Residential Delivery Services)	
Implementation Plan and for)	
Approval of Certain Other)	
Amendments and Additions to its)	
Rates, Terms and Conditions)	

SUPPLEMENTAL DIRECT TESTIMONY

SUBMITTED BY

DAVID J. EFFRON

ON BEHALF OF

**PEOPLE OF THE STATE OF ILLINOIS
CITY OF CHICAGO
COOK COUNTY STATE'S ATTORNEY'S OFFICE
CITIZENS UTILITY BOARD**

SEPTEMBER 14, 2001

1 Q. Please state your name.

2 A. My name is David J. Effron.

3

4 Q. Have you previously submitted testimony in this docket?

5 A. Yes. I submitted direct testimony marked as Exhibit GC 2.0. My qualifications,
6 background, and experience are included with that direct testimony.

7

8 Q. What is the purpose of this supplemental testimony?

9 A. In my direct testimony I stated that Commonwealth Edison Company (“ComEd” or
10 the “Company”) had not responded to all data requests at the time of the preparation
11 of that testimony, and I reserved the right to modify or amend my direct testimony
12 based on responses to the requests then outstanding. The purpose of this
13 supplemental testimony is to amend my direct testimony based on data requests that
14 were outstanding at the time of the preparation of that testimony, but for which
15 responses have since been received. In particular, I am amending my direct
16 testimony on test year operation and maintenance expense based on the response to
17 City of Chicago Data Request 1.009.

18

19 Q. What areas of your direct testimony are you proposing to amend?

20 A. In my direct testimony, I proposed adjustments to normalize test year expenses
21 charged to Accounts 580 and 590. My adjustments were based on the escalated
22 actual expenses incurred in 1999. Based on the level of expenses charged to those
23 accounts for the years 1995-1999, as indicated in the response to City of Chicago

1 Data Request 1.009, it appears that the expenses charged to those accounts in 1999
2 also were abnormally high. Thus, the base I used to calculate the normalized level of
3 expenses was itself abnormally high. In addition, based on an analysis of expenses
4 charged to operation and maintenance expenses for the years 1995-2000, I am
5 proposing adjustments to four other expense accounts in this supplemental testimony.
6

7 Q. What is the basis for your statement that the expenses charged to Accounts 580 and
8 590 in 1999 appear to be abnormally high?

9 A. On Schedule DJE-1S, I show the expenses charged to Accounts 580 and 590 for the
10 years 1995-1999. With regard to Account 580, for the years 1995-1997, the expenses
11 were in the range of \$10 million. In 1998, the expense increased to \$27.9 million and
12 in 1999 to \$39.9 million. Thus, the expense in 1999 was nearly four times the
13 expense in the years 1995-1997 and more than 40% greater than the expense in 1998.
14

15 Similarly, with regard to Account 590, for the years 1995-1997, the expenses were less
16 than \$2 million. In 1998, the expense increased to \$7.7 million and in 1999 to \$8.8
17 million. Thus, the expense in 1999 was more than four times the expense in the years
18 1995-1997 and about 14% greater than the expense in 1998.
19

20 Q. Have you quantified what the effect would be of normalizing the test year expense
21 charged to these two accounts based on actual expenses incurred in the years 1995-
22 1999?

1 A. Yes. I have increased the actual expenses incurred in the years 1995-1999 by 3% per
2 year to allow for escalation (inflation and real growth) from those years to 2000 and
3 then taken the five-year average of those escalated expenses in order to calculate a
4 normalized level of expenses. The normalized expense for Account 580 calculated in
5 this way is \$79,523,000 less than the actual Account 580 test year expense. The
6 normalized expense for Account 590 calculated in this way is \$20,055,000 less than
7 the actual Account 590 test year expense. I believe that the calculation of normalized
8 expense levels in this manner is conservative, as the calculation includes in the five-
9 year average at least one year where the expenses appear to be abnormally high.
10 Unless the Company can satisfactorily explain the causes for the increases in the
11 expenses in recent years and establish that the increased levels of expenses for
12 Accounts 580 and 590 in 2000 are reasonable and expected to continue into the
13 future, the delivery services revenue requirement should be reduced to reflect
14 normalization adjustments of \$79,523,000 and \$20,055,000 to Accounts 580 and
15 590, respectively.

16
17 Q. Are you proposing normalization adjustments to any other distribution operation and
18 maintenance expenses based on ComEd's response to City of Chicago Data Request
19 1.009?

20 A. Yes. Compared to expenses incurred in recent years, the expenses charged to
21 distribution maintenance Account 592 – Maintenance of Station Equipment, Account
22 593 – Maintenance of Overhead Lines (except tree trimming and storm damage), and
23 Account 594 - Maintenance of Underground Lines also appear to be abnormally

1 high. On Schedule DJE-1S, I have calculated normalization adjustments to these
2 accounts based on the escalated expenses incurred in the years 1995-1999.

3

4 With regard to Account 592, the expense pattern is similar to the patterns for Accounts
5 580 and 590. For the years 1995-1997, the expenses were in the range of \$7-8 million.
6 In 1998, the expense increased to \$16 million and in 1999 to \$30 million. The expense
7 increased further, to \$40 million in 2000. The expense in 2000 was four times the
8 expense in the years 1995-1997, 150% greater than the expense in 1998, and about 30%
9 greater than the expense in 1999. Again, it would appear that the expense incurred in
10 2000 was abnormally high and should be normalized. Using the same method described
11 above for Accounts 580 and 590, I have calculated a normalization adjustment of
12 \$25,394,000 for Account 592. Again, unless the Company can satisfactorily explain the
13 causes for the increases in Account 592 and establish that level of expense in 2000 is
14 reasonable and expected to continue into the future, the delivery services revenue
15 requirement should be reduced to reflect this normalization adjustment to Account 592.

16

17 The expenses for Accounts 593, except tree trimming and storm damage which have
18 been separately normalized, and Account 594 in 2000 were not as far out of line with
19 the expenses incurred in earlier years as are Accounts 580, 590, and 592. However, the
20 expenses in Accounts 593 and 594 were still significantly higher, and accordingly, I
21 have calculated normalization adjustments using the same method. This results in
22 normalization adjustments of \$8,060,000 to Account 593 and \$7,511,000 to Account

1 594. I have included these adjustments in the total normalization adjustment to
2 distribution operation and maintenance expense.

3

4 Q. What total normalization adjustment to distribution operation and maintenance
5 expense have you calculated?

6 A. I have calculated a total normalization adjustment of \$140,543,000 (Schedule DJE-
7 1S). This is \$65,201,000 greater than the normalization adjustment in Exhibit GC
8 2.0, which applied only to Accounts 580 and 590.

9

10 Q. Are you proposing any other normalization adjustments based on ComEd's response
11 to City of Chicago Data Request 1.009?

12 A. Yes. I am also proposing an adjustment to Account 903 – Customer Records and
13 Collection Expense. Again, based on a review of actual expenses charged to this
14 account over the years 1995 – 2000, the expenses incurred in 2000 appear to be
15 abnormally high.

16

17 Q. Please explain your normalization adjustment to Account 903.

18 A. I show the expenses charged to Account 903 for the years 1995-1999 and also for
19 2000 on my Schedule DJE-2S. The expense charged to Account 903 in 2000 was
20 actually less than the amount charged to that account in 1999. However, the amount
21 charged in 2000 was significantly greater than the amount charged in the years 1995-
22 1998. For example, the expense charged to Account 903 in 2000 was approximately
23 \$55 million greater than the average for the years 1995-1997. Thus, even though

1 expense charged to Account 903 in 2000 was less than the amount charged in 1999,
2 the 2000 level of expense still appears abnormally high when compared to other
3 recent years.

4

5 On Schedule DJE-2S, I have used a method to normalize the expense charged to
6 Account 903 similar to the method that I used to normalize the expenses charged to
7 distribution operation and maintenance expense on Schedule DJE-1S. However, I
8 excluded 1999 from the base period used to calculate the normalized level of expenses.
9 The \$170 million of expenses incurred in 1999 clearly appears as an outlier and, based
10 on the response to City of Chicago Data Request 1.098, contains expenses that are
11 abnormal and of a non-recurring nature. Therefore, I have used the four-year period
12 1995-1998 as a base for calculating the normalized level of expense charged to Account
13 903. The escalated average expense for the four years 1995-1998 is \$99,805,000. This
14 is \$39,615,000 less than the expense charged to Account 903 in 2000. Unless the
15 Company can justify the expense charged to Account 903 in 2000 as being reasonable
16 and reflective of the normal level of expense that will be incurred prospectively, the
17 delivery services revenue requirement should be reduced by \$39,615,000 to reflect the
18 normalization of expenses charged to Account 903.

19

20 Q. Does this conclude your supplemental testimony?

21 A. Yes.